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OUTLOOK

February 1989

A Monthly Forecast for the Economy and Real Estate

FORECAST SUMMARY

- The Department of Commerce reported that real GNP grew 2.0 percent in the fourth quarter of 1988, representing a slight decline from the third quarter growth rate of 2.5 percent.
- The most recent figures on consumer borrowing illustrate the strength in consumer spending during the last quarter of 1988: in November, consumer credit rose $4.48 billion to $657.2 billion (an 8.2 percent annual increase).
- In a recent testimony before the House of Representatives Banking Committee, Federal Reserve Board Chairman, Mr. Alan Greenspan, warned that the amount of economic growth forfeited in the short-term by a tighter monetary policy is far less costly than an extended period of higher inflation.
- Starts of privately owned homes fell 2.2 percent in December to a seasonally adjusted annual rate of 1.524 million units. Although revisions to housing starts estimates are common, the December rate implies that total housing starts in 1988 declined by 8.2 percent to 1.487 million units, the slowest rate of housing construction in the current housing cycle.
- Sales of new, single-family homes fell 8.0 percent in November to a seasonally adjusted annual rate of 671 thousand units, marking the largest one-month decline since May of 1987.
- December sales of existing single-family homes surged to a seasonally adjusted annual rate of 4.09 million units, 11.3 percent faster than the month before and 22.8 percent quicker than a year ago. The December pace is a record for the present housing cycle and is faster than any rate seen since May of 1979.
- Over the course of 1988, the median existing single-family home appreciated 4.1 percent to $89,100 (identical to the 4.1 percent rise in the consumer price index in 1988), compared to $85,600 in 1987.

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Forecasting & Policy Analysis Division
NATIONAL ASSOCIATION OF REALTORS ®
REALTOR® 777 14th Street, NW Washington, D.C. 20005

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WON'T YOU COME HOME, GEORGE BAILEY

Economic Commentary

by
John A. Tuccillo
Cheif Economist and
Senior Vice President
Real Estate Finance

That's right, George, not Bill, because this commentary is about the movies and how they teach economics. Over the years the silver screen has contained some of the finest gems of economic analysis. But these are yielded only to those who look. Interested in arbitrage? Forget *Wall Street*. Michael Douglas is too transparent, and too far beyond the law to sustain his business. Look rather at George Arliss in *The House of Rothschild* (1934), as he diabolically crushes the evil Count Ledranz by manipulating the British bond market. Worried about OPEC's ability to hold up the price of oil? Go back and look at *Lawrence of Arabia* and sleep peacefully. Think that bank runs are only features of severe economic times? *Mary Poppins* (of all things) will throw a scare into you.

These seemingly idle musings are prompted by the recent holiday season and its endless reruns of *It's a Wonderful Life*, the once special Frank Capra film that has been debased by constant exposure (see, yet another economic lesson!). Most people will view the film as a sentimental statement on friendship, family and the rewards of doing good--a hymn to the dignity and importance of the common man. The economist, however, sees it for what it really is: an analysis of the financial industry in the United States, and the importance of niche marketing. (Actually, until the 75th viewing, these facets are not readily apparent, even to the specialist). Let's look at these ideas in sequence.

The Bailey Building and Loan is no different from any savings and loan as it existed in any American city from the Thirties through the Seventies. It took deposits from the local folk, mostly in small amounts and mostly in an atmosphere that was very personal. Similarly, it used these savings to finance the houses of the very same people in the same personalized manner. And while most savings and loan managers did not necessarily go to the extremes George Bailey did in serving his friends, the close relationship was a hallmark of the industry. Similarly, Mr. Potter's bank was not typical of commercial banks of the era. They were a bit more distant, served a commercial clientele as well as individuals, and had many more ties outside the community than did the building and loan.

But things have changed. And unlike *Jaws*, or *Rocky*, or *Friday the 13th*, Frank Capra did not make *It's a Wonderful Life II*. Did you every wonder (with a nod to Andy Rooney) what happened to George and the Bailey Building and Loan after the movie ended. The odds are that like most of its contemporaries, the association got trapped with those long term low income loans on houses in Bailey Park and was forced to pay ever rising rates to its "friends" who placed their savings there. And George, good-hearted soul that he was, would probably have been unable to cope with a world in which market rates prevailed, competitors moved in on both his depositors and his borrowers, and larger building and loans (not to mention good old Mr. Potter) tried to buy him out.

Lest you think this is a misanthropic treatise, rest assured that the speculations about George's future are based on what in fact has happened in the savings and loan industry. A great deal of the current thrift mess stems from the fact that the industry, and its managers, grew up in a world that simply disappeared, leaving them ill-equipped to deal with the one that replaced it (c.f. *The Land Before Time*). In the new world, far fewer institutions are necessary. In other words, if there had never been any fraud in the industry, if oil prices had never fallen from $35 a barrel, and if interest rates had never soared to 20 percent, George Bailey might have still become only a fond memory, Clarence or no.

But, George did survive in his world, and there's a lesson in that. He had attained a market niche. Never big enough to challenge Mr. Potter, the Bailey Building and Loan had "size equivalence," the ability to command a market share because of character. Personal service enabled George to be a community and market force, and successfully compete against Potter. For real estate firms, the example should not be lost. Some firms are large enough to control a significant share of their market. Others achieve this size by proxy through participation in a franchise arrangement. Still others have neither size nor quality, but have a sharply-etched identity that preserves for them a viable market share.

Just as the world changed for George Bailey, it is also evolving for the real estate industry. As with so many aspects of American business, real estate is moving through the age of the "vanishing middle." Firms that have neither absolute size nor readily-identifiable "boutique" identity are disappearing in favor of those who do. In the late-Nineties, the aging of the baby boom generation will put a downward sign on the real estate business. Then, the achievement of size equivalency will be an imperative.

Outlook for the Economy and Real Estate

THE ECONOMIC OUTLOOK

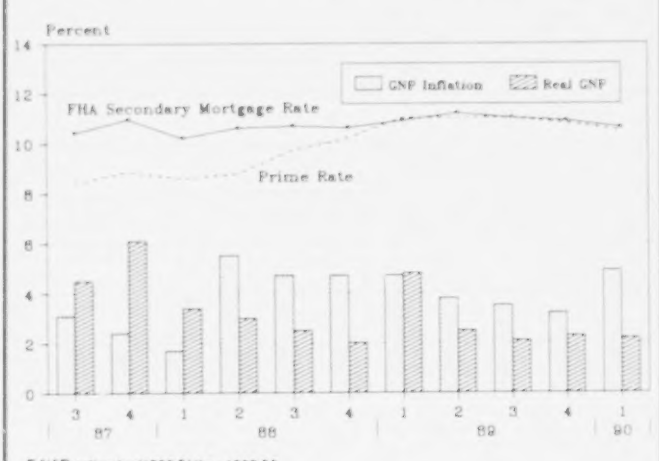
The Department of Commerce recently reported that the preliminary estimate of real GNP growth in the fourth quarter of 1988 was 2.0 percent, representing a slight decline from the third quarter growth rate of 2.5 percent. In advance of this release, indicators of the economy's health had suggested that the export-led expansion of early 1988 was beginning to falter. The fourth quarter GNP report confirms this trend, as real net exports declined for the second consecutive quarter. In its place, increased consumption due to strong employment growth and high consumer confidence, along with surprisingly buoyant housing construction activity has helped the rate of real GNP growth reach 3.8 percent during 1988. Consequently, the monetary authority has continued to tighten monetary policy in an effort to avert a significant rise in the rate of inflation. The Fed has indicated that it is prepared to reel in credit even more should conditions warrant. The 2.0 percent growth rate of the fourth quarter is a welcome positive sign that could temporarily lessen fears of a rapidly accelerating rate of inflation.

Financing Consumption the American Way

The most recent figures on consumer borrowing illustrate the strength in consumer spending during the last quarter of 1988: in November, consumer credit rose $4.48 billion to $657.2 billion (an 8.2 percent annual increase). The expectation had generally been that consumption would slow in 1988, leading to a higher rate of saving, and reducing the risk of faster inflation. While consumer prices rose only modestly (4.1 percent in 1988), spending has shown few signs of retreat; and it is borrowing, rather than saving, that has continued to grow. Revolving credit (borrowing on bank credit cards, personal bank loans, and retail and gasoline credit) has led the growth in consumer credit. And while many argue that the figures on revolving credit overstate the level of borrowing by including credit that is paid off before finance charges set in, this does not explain its rise from 2.4 percent of income in 1977 to 5.2 percent in 1988. Looking ahead to 1989, consumption could ease if consumers begin to steadfastly pay down some of this debt as the deductibility of interest on this debt is virtually phased out.

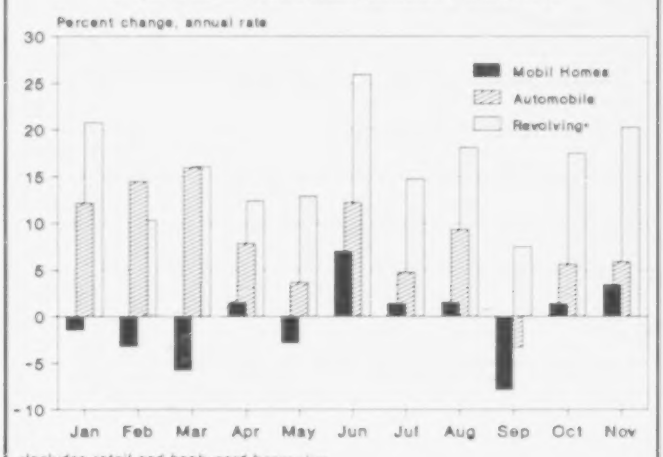
Partly as a result, consumer loans are increasingly being replaced by home equity loans, which remain fully deductible, and typically carry a lower interest rate (due to the reduced risk of a secured loan). The flexible and still relatively new home equity credit lines are being used to pay off automobile, credit card, and personal bank loan balances, according to a recent survey by the Survey Research Center at the University of Michigan. In addition, the equity credit lines have been used to make new outlays that have been historically financed through consumer loans, i.e. automobile and personal loans. Presently, home equity lines of credit appear to be a vehicle of the wealthy (median income of $58,700) and concentrated in the Northeast. However, their use has spread rapidly since their introduction and will continue to do so as knowledge of their application increases as well.

GRAPH 1: THE ECONOMIC OUTLOOK



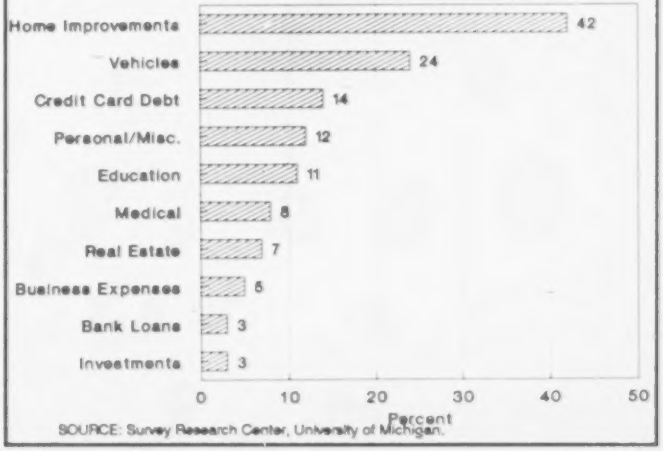
E NAR estimates (1988:IV thru 1989:IV)

GRAPH 2: CONSUMER CREDIT GROWS



*Includes retail and bank-card borrowing.
SOURCE: The Federal Reserve Board.

GRAPH 3: HOME EQUITY CREDIT LINES: WHAT ARE THEY GOOD FOR?



SOURCE: Survey Research Center, University of Michigan.

Monetary Policy and Interest Rates

Federal Reserve Board Chairman, Mr. Alan Greenspan, reconfirmed his commitment to battle inflation in recent testimony before Congress. In defense of his anti-inflationary policy, Mr. Greenspan cautioned that the amount of economic growth forfeited in the short-term by a tighter monetary policy is far less costly than an extended period of higher inflation. Of course, the current policy of tighter credit and higher interest rates is not without its own risks. During the past month, Mr. Greenspan and his fellow central bankers around the world have employed their foreign exchange reserves in an effort to stall a steady rise in the dollar brought about by these higher U.S. interest rates. A stronger dollar could interrupt improvement in the U.S. trade deficit, which has already shown signs of pausing at the end of 1988.

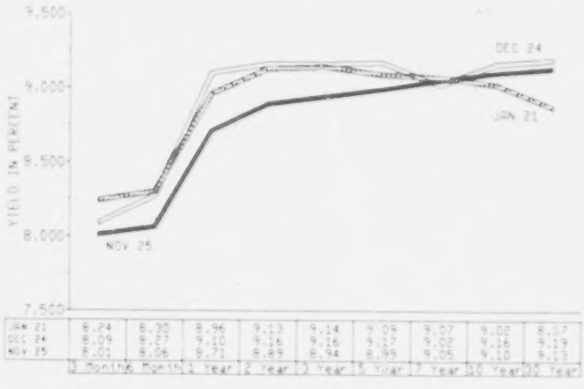
Housing Starts

Starts of privately owned homes fell 2.2 percent in December to a seasonally adjusted annual rate of 1.524 million units. Although revisions to housing starts estimates are common, the December rate implies that total housing starts in 1988 declined by 8.2 percent to 1.487 million units, the slowest rate of housing construction in the current housing cycle. Single-family starts dipped 1.9 percent in December to a seasonally adjusted annual rate of 1.114 million units. In 1988, single-family starts totalled 1.08 million units, a drop of 5.8 percent from the 1.146 million units of 1987. Starts of structures with 2 to 4 units totalled 59.2 thousand units in 1988, a decline of 9.9 percent from the 1987 total of 65.7 million units. Housing starts of structures with 5 or more units fell 2.6 percent in December to an annual rate of 344 thousand units. In 1988, starts of these structures dropped 14.9 percent to a total of 347.8 thousand units. It appears that the 1986 tax laws, which curtailed many incentives in the tax code to own rental property, continues to squeeze the multi-family market. However, much of the adjustment to the tax code change occurred in 1987 when multi-family starts fell 24.4 percent. The rate of total housing starts activity is expected to continue easing this year, falling an estimated 6.6 percent in 1989 to 1.385 million units. However, the pace of single-family starts will likely remain at the robust rate of one million units.

New Home Sales

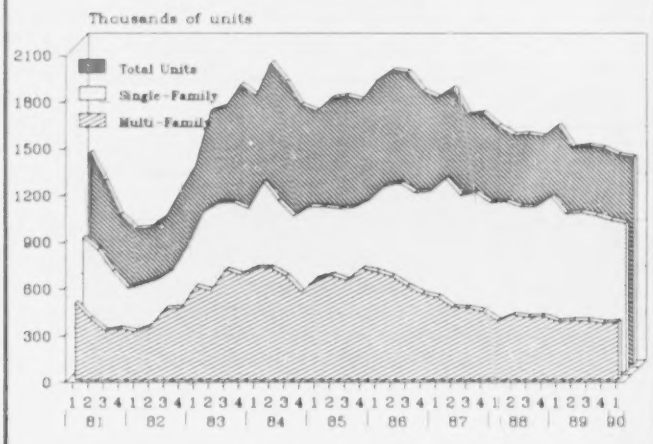
Sales of new, single-family homes fell 8.0 percent in November to a seasonally adjusted annual rate of 671 thousand units, marking the largest one-month decline since May of 1987. The disappointing performance in November came at the end of a year characterized by considerably strong sales. In the wake of the October 1987 stock market crash, new home sales were expected to decline by at least 2 to 4 percent in 1988. However, surprisingly vigorous economic growth propelled by an export expansion and the resilient American consumer pushed new home sales to an estimated 679 thousand units, 1.3 percent above the 1987 total of 671 thousand units. In 1989, new home sales are expected to slow by about 8 percent to an estimated 623 thousand units due to higher interest rates in the first quarter and generally slower economic growth throughout the year.

GRAPH 4: THE YIELD CURVE



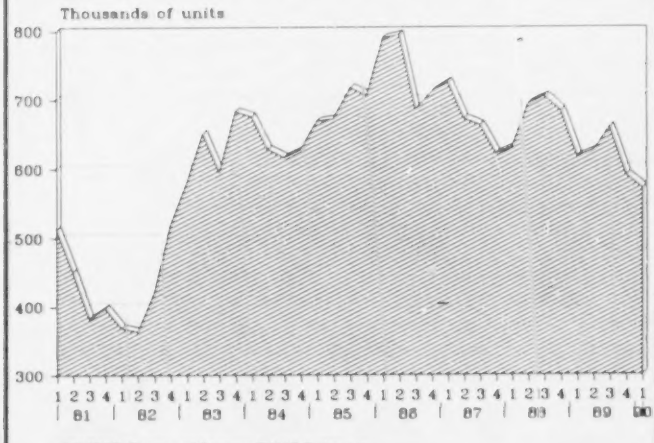
SOURCE: The Federal Reserve Board, E NAR Estimates

GRAPH 5: HOUSING STARTS



SOURCE: The Bureau of Census, E NAR Estimates.

GRAPH 6: NEW HOME SALES



SOURCE: Bureau of Census; E NAR Estimates.

Existing Home Sales

December sales of existing single-family homes surged to a seasonally adjusted annual rate of 4.09 million units, 11.3 percent faster than the month before and 22.8 percent quicker than a year ago. The December pace is a record for the present housing cycle and is faster than any rate seen since May of 1979. The huge jump in existing home sales seemed to be the result of two unrelated occurrences. First, existing home sales in the South shot up 15.8 percent from November to December. Apparently, relatively lower housing prices characteristic of the soft housing market in much of that region has begun to re-attract homeowners and investors. Second, a more restrictive monetary policy of late has caused short-term interest rates to rise by as much as 250 basis points in recent months. As a result, rates on adjustable rate mortgages have begun to reflect a small portion of this general rate rise. Potential homebuyers, specifically those who have been counting on an adjustable rate mortgage in order to qualify for a loan, seem to have moved forward their home buying decisions over concern that these rate increases would delay a planned home purchase. The Federal Home Loan Bank Board reported that adjustable rate mortgages accounted for a 64 percent share of total mortgages issued on existing homes in December, the highest share since January of 1988.

Home Prices

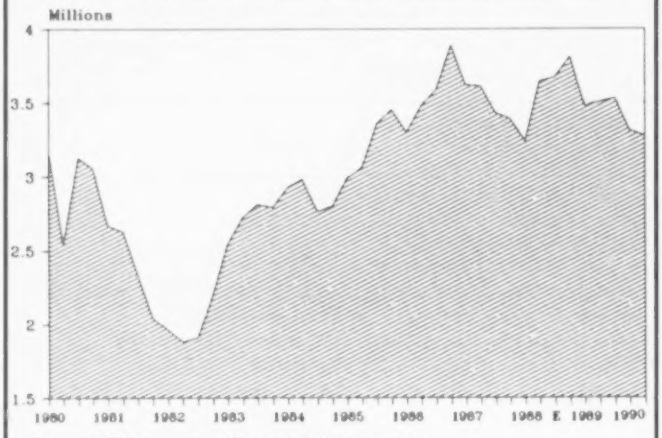
The median price of an existing single-family home dropped for the fourth consecutive month, falling 0.3 percent in December to $87,700. The December price was 2.7 percent above the $85,400 median price of December 1987, but 4.1 percent below the 1988 peak of $91,400, set in August. Over the course of 1988, the median existing single-family home appreciated 4.1 percent to $89,100 (identical to the 4.1 percent rise in the consumer price index in 1988), compared to $85,600 in 1987.

REGIONAL DATA

New Home Sales

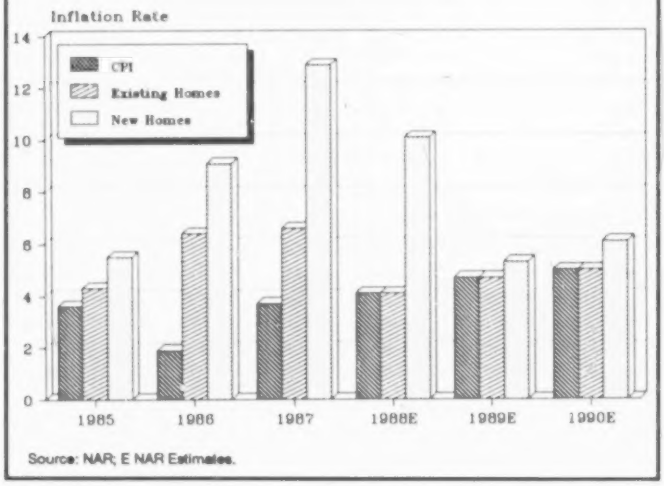
The decline in new home sales during November fell disproportionately on the Northeast, where sales declined 27 percent to a seasonally adjusted annual rate of 72 thousand units, 53 percent lower than the November 1987 annul rate of 154 thousand units, and marking the lowest rate in 55 months. In addition, the sales rates in both September and October were revised downward 9.0 percent and 11.0 percent, respectively. Sales fell 7.6 percent in the South to a seasonally adjusted annual rate of 245 thousand units, which marked the slowest rate since the 204 thousand unit rate set in January of 1988. In the West, sales dropped 6.8 percent to an annual rate of 233 thousand units, but were 32.4 percent stronger than the year ago pace of 176 thousand units. The Midwest was the only region to experience a rise in the rate of new home sales. November sales increased 5.2 percent to an annual rate of 121 thousand units, or 36.0 percent faster than the 99 thousand unit annual rate of one year ago and a sixteen month high for sales in the Midwest.

GRAPH 7: EXISTING SINGLE-FAMILY HOME SALES



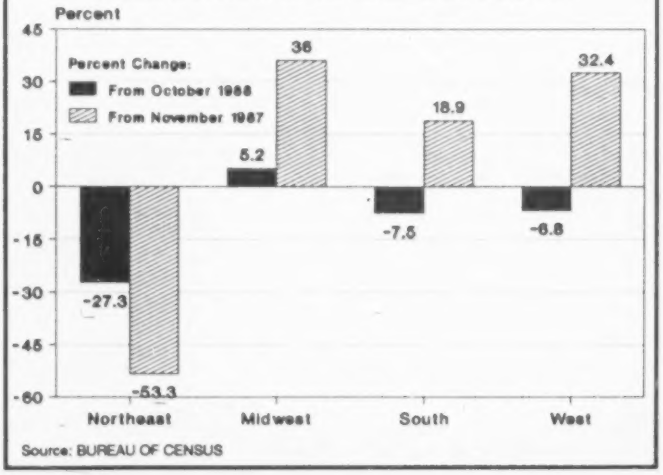
Source: NAR Economics and Research; E NAR Estimates

GRAPH 8: HOME PRICES



Source: NAR; E NAR Estimates.

GRAPH 9: NEW HOME SALES BY REGION



Source: BUREAU OF CENSUS

Housing Starts

December housing starts fell in every region except the Midwest, where starts rose 25.1 percent to an annual rate of 329 thousand units. In percentage terms, housing construction activity slowed the most in the Northeast where starts fell 20.9 percent to a seasonally adjusted annual rate of 179 thousand units, the slowest pace since March of 1984. In the West, homes were started at an annual rate of 427 thousand units, 7.2 percent below the 460 thousand unit rate set in November. In the South, housing starts fell 3.6 percent to a seasonally adjusted annual rate of 589 thousand units. All four regions experienced a decline in starts from 1987 to 1988 The largest slowdown occurred in the Northeast where starts fell 12.5 percent to a total of 235.3 thousand units. In the South, housing starts reached 574.7 thousand units, down 9.3 percent from the 1987 total of 633.9 thousand units. In the Midwest, construction began on 272.6 thousand units compared to 297.9 units in 1987 (an 8.4 percent decline). The West maintained the strongest housing activity during 1988 and experienced the smallest decline (3.6 percent), with a total of 404.5 thousand units.

Existing Home Sales

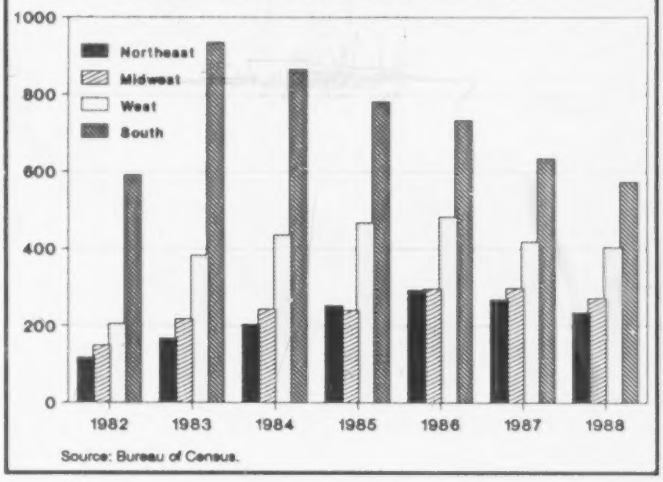
All four regions enjoyed a healthy rate of existing single-family home sales in the last month of 1988, with sales in the South recording the largest advance of 15.8 percent. The 1.61 million unit rate in the South was 29.8 percent above the rate of sales one year ago and the highest sales pace in the current housing cycle. In the South, 1.351 million existing single-family homes were sold during 1988, an increase of 5.4 percent over 1987. As mentioned before, the increased activity in the South appears to be the result of a process of clearing the excess inventory of existing homes for sale in much of that region. In the other regions, the sales pace rose 10.4 percent from November to December in the Midwest to a seasonally adjusted annual rate of 1.06 million units, also a current housing cycle high. Sales totalled 935 thousand units in 1988, a 2.5 percent decline from 1987. In the West, existing homes were sold at an annual rate of 690 thousand units in December (4.5 percent above the November annual rate) and totalled 645 thousand homes in 1988 (a 7.5 percent increase from 1987). In the Northeast, existing home sales grew by 4.4 percent to a 710 thousand unit rate for December. The 1988 total for the Northeast region was 2.5 percent below the 1987 total of 681 thousand units

Home Prices

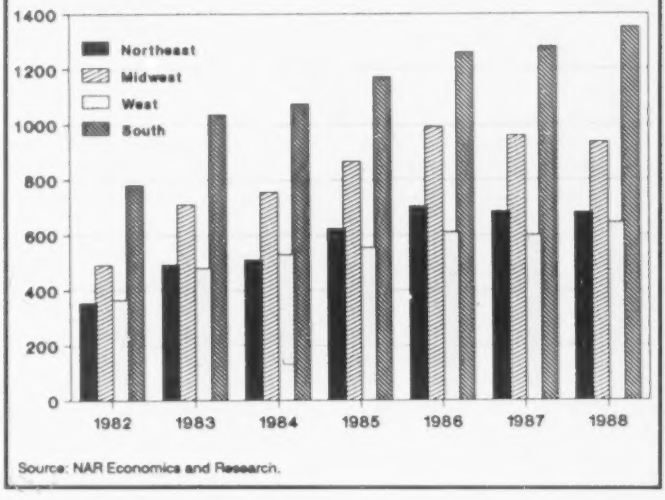
A substantial inventory of lower priced homes being sold in parts of the South resulted in a 2.2 percent decline in the median home price to $78,500. The median price fell 8.6 percent in the West to $117,800, while prices rose in the Midwest (0.1 percent to $67,800) and the Northeast (1.8 percent to $143,300). In terms of annual appreciation, prices in the West rose the fastest, increasing 9.2 percent to $123,700 in 1988, compared to a 7.4 percent rise in the Northeast to $143,100, 3.5 percent rise in the Midwest to $68,300 and a 2.4 percent jump in the South to $82,300.

Sean A. Burns, Director of Forecasting
Beth M. Maerz, Research Associate
Forecasting and Policy Analysis Division

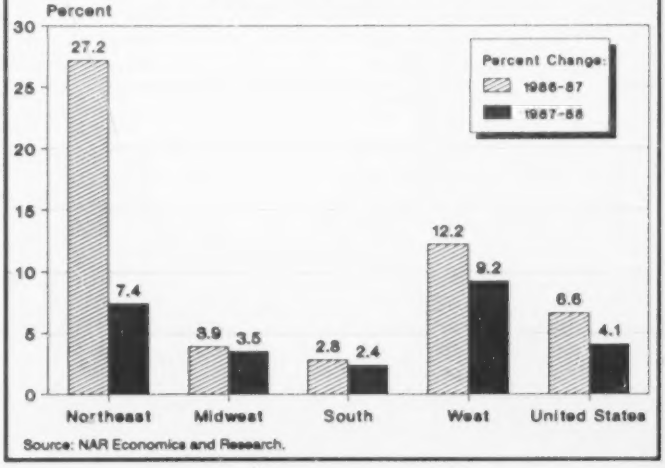
GRAPH 10: HOUSING STARTS BY REGION



GRAPH 11: EXISTING HOME SALES BY REGION



GRAPH 12: HOME PRICES BY REGION



HOUSEHOLD MOBILITY AND THE PERCEIVED CRISIS IN HOMEOWNERSHIP

During the 1980s the proportion of households owning homes in the United States declined from 43 percent to 36 percent for the 25 - 29 age group and from 61 percent to 53 percent for the 30 - 34 age group. The median age for first-time homebuyers increased by over five years (from 26.0 to 31.5) during the decade from 1977 to 1987. The affordability index value for first-time homebuyers is currently some 30 points lower than for all homebuyers (79.3 vs. 114.1). The litany is familiar--all available indicators seem to confirm the widely held notion that a homeownership crisis currently afflicts prospective first-time homebuyers.

What remains unclear is precisely why a crisis exists. Is it primarily a financing problem, e.g., owing to prohibitively high downpayment requirements or to unmanageably high monthly principal and interest payments? Is it primarily a demographic problem, e.g., owing to growing numbers of single-person and other non-traditional households for whom rental units are typically more suitable than are owner-occupied units? Or is the crisis due to some combination of these factors and, perhaps, to other as-yet-unidentified factors?

THE NATIONAL ASSOCIATION OF REALTORS® National Homeownership Survey conducted in 1986 provides a unique opportunity to look for likely causes of the perceived homeownership crisis. Specifically, this survey permits comparison of "prospective homeowners" with "marginal homeowners." Prospective homeowners are defined as all current renters who moved into their dwelling units within the preceding five years, who did not own their previous homes, and who gave "serious thought" to owning at the time of their move. Marginal homeowners include all current owners who purchased their homes within the preceding five years but who gave "serious thought" to renting at the time of their move.

Differences between those two groups may provide insight into why some households have managed to become homeowners, albeit often with difficulty, while so many others remain renters in spite of their expressed desire to own. The following table compares selected household characteristics for prospective homeowners with those of marginal homeowners. Asterisks indicate characteristics having a statisitically significantly difference between the two groups.

COMPARATIVE HOUSEHOLD CHARACTERISTICS FOR PROSPECTIVE HOMEOWNERS AND MARGINAL HOMEOWNERS

Household Characteristics	Prospective Homeowners	Marginal Homeowners
Married Houshold	42.1%	45.7%
Ageof Household Head (avg. yrs.)*	35.1	42.3
Household Size (avg. no.)*	2.8	2.4
Household Income Earners (avg. no.)	1.6	1.5
Household Current Income (1984)*	$20,615	$24,405
Household Saving Rate As Percent of Income (previous 5 yrs.)	3.4%	4.4%
Expect to Move in Next 10 Years*	90.2%	64.8%
Expect Household Size Increase in Next 5 Years	22.1%	13.3%

* Indicates characteristic values differ at .05 level of significance.

Not surprisingly, prospective homeowners were found to have significantly lower incomes (18% lower on average) and lower savings rates (3.3% vs. 4.3%) than did marginal homeowners. This is certainly consistent with the generally held view that lack of affordability prevents many households from becoming homeowners.

But the characteristic which most sets prospective homeowners apart from marginal homeowners is their much higher expectation of moving. Whereas fewer than two-thirds of marginal homeowners expected to move within the next ten years, more than nine out of ten prospective homeowners expected to move. And this difference in expected mobility remains both sizeable and significant between the two groups of households regardless of their age, income, or previous tenure.

This finding raises further questions, particularly regarding *why* prospective homeowners have such high expectations of moving and *how* expectations of moving affect a household's rent/buy decision. Although answering these questions will entail a great deal more research and data analysis than have been done to date, some heuristic evidence and conjectural explanations present themselves here.

Costs associated with buying and selling a home obviously constitute an obstacle to homeownership. Presumably, the shorter the length of time a household expects to live in its house the higher the expected annual prorated costs of buying and selling that house. The implication is that the focus of future public policy as well as a concern of today's real estate agent ought to be on closing and other transactions costs of homeownership. (As an article in the December issue of *Real Estate Outlook* indicated, even the process of obtaining home finance information may itself represent a sizeable "transaction cost" for some prospective homeowners.)

An estimated 18.0 percent of the U.S. population lived in a different house in 1986 than they did in 1985; this is a sizeable increase from the 16.6 percent of the population which moved between 1981 and 1982.[1] Current mobility rates may be unusually high because of recent demographic trends. In particular, swollen by post-World War II baby-boomers, young households now comprise a disproportionately large share of all U.S. households.

[1] U.S.Bureau of the Census, *Current Population Reports*, Series p-20, No. 393.

Whether household mobility will increase or decrease in the foreseeable future depends largely on which of two projected demographic trends will predominate. On the one hand, as the baby-boomer generation ages, their mobility is likely to diminish if they behave as older households typically do. Whereas the mobility rate for households in the 25 - 29 age class was 32.8 percent in 1986, only 22.5 percent of households in the 30 - 34 age class and 15.7 percent of those aged 35 - 44 moved in that year.[2]

On the other hand, single-person households are projected to increase from the current 24 percent of total households to 32 percent by the year 2000. Average household size is also projected to decline from 2.7 to 2.5 members during that period.[3] These trends would seem conducive to increased rather than to decreased mobility.

Under the "confirming what everyone knows" rubric is our finding that homeownership overwhelmingly remains the American dream. Across all income and age classes, 95 percent or more of the households we define as prospective homeowners said they would like to own their own homes. Even among renter households which had not recently given serious thought to owning, four out of five said they would like to own.

In sum, although much remains to be learned about the rent/buy decision, convincing evidence exists that realization of their homeownership dream is somehow being either delayed or prevented by many households' high expectation of moving. Whether household mobility is likely to increase or to decrease on balance over the next decade will depend upon the opposing influences of aging baby-boomers and single-person households.

[2] U.S.Bureau of the Census, *Current Population Reports*, Series p-20, No. 393.

[3] Peter Morrison, "Demographic Factors Shaping the U.S. Market for New Housing," A Rand Corporation Report as cited in Sam Hankin, "Two-Income Households Expected to Boost Homeownership Rates," *The Washington Post* (January 14, 1989), p. F-4.

by
John Simonson
Professor of Economics
University of Wisconsin-Platteville
Visting Scholar at the
NATIONAL ASSOCIATION OF REALTORS®

U.S. ECONOMIC OUTLOOK

FEBRUARY 1989

	QUARTERS								YEARS				
	ACTUAL		FORECAST						ACTUAL		FORECAST		
	88.2	88.3	88.4	89.1	89.2	89.3	89.4	90.1	1986	1987	1988	1989	1990
AGGREGATE ECONOMY													
Gross National Product (billions of dollars)	4824	4909	4990	5109	5188	5259	5332	5426	4240	4527	4862	5222	5556
% Change	8.7	7.3	6.8	9.7	6.4	5.6	5.6	7.2	5.6	6.8	7.4	7.4	6.4
% Change (w/out inflation)	3.0	2.5	2.0	4.8	2.5	2.1	2.3	2.2	2.8	3.4	3.8	2.9	2.3
Consumer Price Inflation (CPI)	4.8	4.7	4.3	5.0	5.1	4.9	4.9	5.7	1.9	3.7	4.1	4.7	5.0
GNP Inflation (GNP Deflator)	5.5	4.7	4.7	4.7	3.8	3.5	3.2	4.9	2.7	3.3	3.4	4.4	4.0
Unemployment Rate - Civilian	5.4	5.5	5.3	5.4	5.4	5.4	5.3	5.3	7.0	6.2	5.5	5.4	5.3
Civilian Employment-Household Basis (millions)	114.6	115.2	115.9	116.3	116.8	117.3	117.8	118.2	109.6	112.4	115.0	117.0	118.9
Percent change	1.5	1.9	2.5	1.3	1.8	1.7	1.7	1.5	2.3	2.6	2.3	1.8	1.6
Index of Industrial Production	136.0	138.4	140.1	141.4	142.2	142.9	143.7	144.2	125.1	129.8	137.2	142.6	145.5
Manufacturing Capacity Utilization	83.2	84.0	84.6	84.7	85.0	84.9	84.8	84.7	79.7	81.0	83.6	84.8	84.8
Domestic Auto Sales	7.5	7.6	7.0	7.3	7.1	7.2	7.2	7.1	8.2	7.1	7.4	7.2	7.0
Federal Tax Receipts (NIPA) as % of GNP	20.4	19.9	20.1	20.2	20.3	20.3	20.4	21.0	19.5	20.2	20.1	20.3	21.0
Federal Expenditures (NIPA) as % of GNP	23.1	22.4	22.5	22.8	22.8	22.8	22.8	22.9	24.4	23.7	22.9	22.8	22.9
Deficit(NIPA)	-133.3	-123.5	-134.2	-139.8	-134.1	-134.5	-134.7	-108.3	-205.6	-157.8	-136.5	-135.8	-105.5
as % of GNP	-2.8	-2.5	-2.9	-2.6	-2.5	-2.5	-2.5	-2.0	-4.9	-3.5	-2.9	-2.5	-2.0
REAL ESTATE MARKETS													
HOME SALES													
Total Single-family Home Sales (thousands, single-family resales plus 97 percent of single-family starts)	4674	4702	4904	4462	4501	4506	4260	4205	4712	4648	4644	4432	4259
Percent change – year ago	-0.5	3.8	10.3	-2.0	-3.7	-4.2	-13.1	-5.8	10.8	-1.4	-0.1	-4.6	-3.9
Existing Single-family Home Sales (thousands)	3643	3670	3810	3475	3505	3527	3310	3276	3565	3526	3593	3454	3307
Percent change – year ago	0.9	7.0	12.4	6.9	-3.8	-3.9	-13.1	-5.7	10.9	-1.1	1.9	-3.9	-4.3
Housing Starts (thousands)	1481	1468	1538	1395	1408	1392	1346	1331	1812	1634	1483	1385	1359
Percent change – year ago	-7.8	-9.3	0.3	-5.6	-4.9	-5.2	-12.5	-4.5	4.1	-9.8	-9.2	-6.6	-1.9
Single-Family Units	1063	1064	1128	1018	1027	1009	979	958	1183	1157	1083	1008	981
Percent change – year ago	-6.5	-7.8	-0.1	-7.2	-3.4	-5.1	-13.2	-5.9	10.4	-2.2	-6.3	-6.9	-2.7
Multi-Family Units	418	405	410	377	382	382	367	374	630	477	400	377	378
2-4 Family Units	57	58	66	54	54	55	52	53	85	66	57	54	54
Percent change – year ago	-20.4	4.2	14.6	-4.6	-5.2	-5.5	-20.8	-0.8	-9.0	-22.6	-13.3	-5.7	0.2
5+ Family Units	360	347	344	323	327	328	315	321	545	412	343	323	324
Percent change – year ago	-9.1	-15.2	-0.7	-0.1	-9.2	-5.5	-8.5	-0.8	-5.6	-24.4	-16.7	-5.7	0.2
New Single-family Home Sales (thousands)	697	705	683	617	626	660	590	570	750	671	679	623	585
Percent change – year ago	3.4	4.4	10.0	-2.1	-10.2	-6.4	-13.6	-7.6	9.0	-10.5	1.2	-8.2	-6.1
Mobile Homes Shipped (thousands)	219.7	219.0	229.6	219.6	224.2	227.2	230.4	231.4	245.5	232.8	218.7	225.4	235.1
HOME PRICES													
Existing Home Prices - Median $(1000)	88.9	90.2	87.9	88.5	91.9	93.7	94.8	95.1	80.3	85.6	89.7	93.3	97.9
Percent change – year ago	4.5	5.5	3.4	0.8	3.4	3.9	7.8	7.5	6.4	6.6	4.1	4.7	5.0
New Home Prices - Median $(1000)	112.9	115.5	116.5	117.0	119.8	122.6	122.9	123.8	92.0	104.0	114.5	120.6	127.9
Percent change – year ago	9.1	8.8	4.2	3.6	6.1	6.1	5.5	5.8	9.1	12.9	10.1	5.3	6.1
FINANCIAL MARKETS													
Long-Term Interest Rates													
30-year FRM (FHA Secondary)	10.6	10.6	10.6	10.9	11.2	11.0	10.9	10.6	9.9	10.2	10.5	11.0	10.5
1-year ARM	8.3	8.5	8.7	8.8	8.8	8.5	8.2	8.2	9.5	8.5	8.5	8.6	8.2
Corporate AAA Bond Rate	9.8	10.0	9.8	10.1	10.3	10.2	10.0	9.8	9.0	9.4	9.8	10.2	9.7
Government Bond Rate	9.1	9.2	9.1	9.4	9.6	9.5	9.4	9.1	7.8	8.6	9.0	9.5	9.1
Short-Term Interest Rates													
Federal Funds Rate	7.2	8.0	8.4	9.0	9.3	9.1	8.6	8.3	6.8	6.7	7.6	9.0	8.2
3-month T-Bill Rate	6.2	7.0	7.7	8.3	8.4	8.2	8.0	7.7	6.0	5.8	6.7	8.2	7.5
Prime Rate	8.8	9.7	10.2	11.0	11.0	11.0	10.8	10.5	8.3	8.2	9.3	11.0	9.7
Discount Rate	6	6.3	6.5	7.0	7.0	6.9	6.5	6.5	6.3	5.7	6.2	6.5	6.5
Value of the U.S. Dollar (Trade-Weighted Avg.)	90.4	97.6	92.4	89.0	87.2	84.4	81.9	81	112.3	96.9	92.6	85.6	81
Percent change	1.7	35.6	-19.5	-14.0	-8.0	-12.1	-11.2	-4.6	-21.6	-13.6	-4.5	-7.5	-5.4

Source: Forecast produced using Laurence H. Meyer and Associates' model of the U.S. economy.
Assumptions and simulations by Dr. John Tuccillo, Dr Frederick Flick, Sean Burns and Beth Maerz.

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